

Peterson Institute for International Economics

South Korea's economy amid political turmoil

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[00:00:22.02] - Anjali V. Bhatt

Hi, and welcome to PIIE Insider Live. I'm Anjali Bhatt, Communications Manager and Research Fellow here at the Peterson Institute for International Economics. I regularly say that the best part of my job is that I can just walk into the offices of some of the world's top economics experts and just ask them questions and then they answer. So with PIE Insider Live, you get to come with me to ask those questions and get those answers. Today we're speaking to Han Koo-hyo, a PIE Senior Fellow and South Korea's Trade Minister from 2021 to 2022. He's had a long career in trade, negotiating trade agreements and trade architecture, and was also the commercial attaché at the Korean Embassy here in DC in the first Trump administration. So one could say he's seen a lot on the trade front. Quick housekeeping for our live audience, there will be time for questions at the end. So go ahead and submit those via the Q&A function. Don't use the raise hand thing, just the text Q&A box. And please make sure your name is visible and included with the question. So with that, hi, Hankook, thanks for joining.

[00:01:24.29] - Yeo Han-koo

Thanks for having me.

[00:01:26.02] - Anjali V. Bhatt

So I'm going to start with a little story actually, because it was all I was thinking about when I was preparing for this episode. So on December 3rd, you and I were part of the Peterson Institute delegation that was in Singapore for the Next Step conference. And so on that day after the conference, when a group of us had went out, you know, for a post-conference beverage, the conversation at some point had turned towards law enforcement and, you know, different law enforcement regimes in the US, in Singapore, in different European countries. And so I asked you, I was like, oh, what's it like in Korea? And you said something along the lines of, oh, it's not like the US, maybe not quite as strict as Singapore, but it is pretty serious. And then 6

hours later there was martial law and all of the Peterson Institute emails were flying. So since then, tell us what's happened.

[00:02:23.17] - Yeo Han-koo

Yeah, I think that moment, I think it was fake news, right? But I think what happened is that, you know, President Yoon was impeached in the National Assembly last December, and now this Constitutional Court is reviewing the impeachment case. And I think many news media in Korea right now sort of expect that the final decision may come out around March or April. A bit earlier than expected. So I think we have two scenarios. If this constitutional court determines that in favor of this impeachment, then Korea should have a new presidential election in 2 months, so around May or June time. And then if this impeachment is rejected, then President Yoon will be reinstated right away. So we have to see. What happens?

[00:03:21.07] - Anjali V. Bhatt

And then he'll just be president again?

[00:03:23.15] - Yeo Han-koo

Yes. I mean, yeah. I mean, we cannot tell which case will be, but I think there's two scenarios.

[00:03:31.19] - Anjali V. Bhatt

Two scenarios. And so we'll have to see in the next few months still. Yeah. Okay. So given that, tell us about the domestic South Korean economy. How has this political turmoil affected consumers, businesses, investment? How are they doing?

[00:03:47.10] - Yeo Han-koo

Yes, the Korean economy is facing headwinds on multiple fronts, especially on this domestic front. You know, this prolonged political uncertainty is obviously taking a toll on the economy. You know, obviously it's negatively affecting the consumer confidence and businesses cannot make investment decisions, you know, until more clarity on the scene in this, you know, the political and, you know, policy direction. So, and also on the external aspect, you know, Korea is a, you know, trading nation. It's the 6th largest exporting country in the world. And if you look at this trade-to-GDP ratio, it's almost 90%, one of the highest. So normally export drive this economic growth. And this year in 2025, you know, with all these Trump 2.0, we don't have to, you know, explain. And all this uncertainty, unpredictability surrounding global trading, you know, system, it is expected that Korea's trade, you know, export growth may just slow down to

1.5%. I mean, for example, last year the export growth was 8.2%. So you can see how much it may slow down. And so reflecting all these internal and external factors, Bank of Korea recently forecast that 2025, this GDP growth forecast, just kind of, they lowered to 1.6 or 7%, lower than 1.9%, which they forecast, you know, a couple of months ago.

[00:05:34.26] - Anjali V. Bhatt

Okay, so not great. In the blog that you wrote a couple of weeks ago, one of the things you said about one of the headwinds facing the domestic Korean economy were semiconductors and the semiconductor industry.

[00:05:50.01] - Yeo Han-koo

Yes.

[00:05:51.03] - Anjali V. Bhatt

What's going on there?

[00:05:52.02] - Yeo Han-koo

Yeah, I think we need to put things into perspective when we truly understand, you know, the semiconductor industry in Korea. It's the number one industry and accounts for about 20% of annual, you export. And for the last decade or so, Korea has really led the, you know, this, the memory chip industry and the number one in the market share. But, you know, in non-memory chip, you know, it's cutting edge, this, the foundry model. Korea has been really kind of trailing, you know, Taiwan, or, you know, TSMC. And then if you look at this broader industry landscape right now, this manufacturing base is being diversified into Texas, Arizona, Kumamoto, you know, Dresden, etc. And then, you know, this breakthrough technology of AI is disrupting the whole industry. So I think there is a sense of sort of urgency and crisis in Korea. And so now this in the National Assembly, this special law, special act on the semiconductor to really to enhance competitiveness is being discussed. But one really critical issue, controversial issue is the strict labor law. I mean, in Korea, there's a restriction of this 52, you know, hours per week, you know, it's a mandatory.

[00:07:26.26]

But think about this R&D in semiconductor, it's, you know, ruthlessly, you know, competitive. Right. And, you know, you are those scientists, engineers in Silicon Valley, Taipei, Beijing. They can work as long as they want, you know, they, you know, on those hours they want. But there's

a strict restriction. And, you know, many people think that this is really lowering productivity in Korea. So I think Korea should really look at this global landscape and this really competitive pressure and then look at, you know, I mean, that this law has to be passed as soon as possible.

[00:08:07.29] - Anjali V. Bhatt

So if this law was passed and then, you know, Korean engineers could be more productive and focus more on R&D.

[00:08:15.11] - Yeo Han-koo

Yeah. So there's an exception. I mean, now this industry is trying to, you know, is trying to get this exemption on this R&D.

[00:08:25.10] - Anjali V. Bhatt

So only specifically in the semiconductor industry.

[00:08:28.02] - Yeo Han-koo

Semiconductor and R&D sector.

[00:08:29.29] - Anjali V. Bhatt

Okay.

[00:08:30.06] - Yeo Han-koo

Yeah, I think it makes reasonable sense.

[00:08:33.03] - Anjali V. Bhatt

Are they aiming for the higher-end chips or the lower end or both?

[00:08:38.22] - Yeo Han-koo

I think, you know, the higher end.

[00:08:40.17] - Anjali V. Bhatt

Yeah.

[00:08:41.02] - Yeo Han-koo

Yeah.

[00:08:42.29] - Anjali V. Bhatt

Okay. So we'll see how that goes. All right. Why don't we zoom out a little and let's look at Korea's relationship with the US and with China. Like you said, it's a trading nation. How has the US-China confrontation affected Korea?

[00:09:01.18] - Yeo Han-koo

Yeah, Korea is really at a geopolitical fault line between the United States and China. And for the last 20 years, the Korean economy has really benefited from this rapid economic growth of China. And so for the last 20 years, about a quarter of our total export went to China. But that pattern is changing. You know, for the last few years, right now this Korea's export to China is decreasing to like, you know, 19-20% level. And Korea's export to the United States is increasing from normally 12-13% level to like 19-20% level. So it's more— a lot of that diversification and de-risking is happening in Korea. So I think, you know, this Trump 2.0, really needs to carefully look at what is happening, this shift in trade investment and also the supply chain happening in Korea, and then really not overdo this tariff to kill this momentum.

[00:10:13.21] - Anjali V. Bhatt

We'll definitely get to the tariffs in a minute.

[00:10:16.08] - Yeo Han-koo

Yeah.

[00:10:17.17] - Anjali V. Bhatt

But so the Korean companies that are, that are investing less in China, are they moving to the US, or are they also looking for other places?

[00:10:29.05] - Yeo Han-koo

You know, last year Korea's investment in the US was 15 times, 1.5 times, you know, higher than Korea's investment into China. And then since Trump 1.0, Korean companies invested \$160 billion in semiconductor, you know, batteries and automobiles as well. And when it comes

to greenfield investment, just building factories, you know, from bottom up, Korea was number 1 in 2023 and 2024. So you see how this, you know, Korean companies are really pivoting towards this US, really strongly motivated by CHIPS Act and then IRA, etc. So we have to see you know, how we could maintain this momentum.

[00:11:21.14] - Anjali V. Bhatt

So there was the, the chip factory in Arizona was, was TSMC. What are the Korean companies that are, that are investing in sort of the higher tech parts of the US?

[00:11:33.23] - Yeo Han-koo

Actually, Samsung Electronics, they invested in the, you know, Texas, Austin, Texas, but now building this Taylor, Texas as well. And then the Hyundai you know, automobile. They have big factories in Alabama and Kia in Georgia. And many of these batteries are scattered, you know, around Ohio and, you know, Michigan and all these Midwest, you know, countries, states.

[00:12:03.20] - Anjali V. Bhatt

You've been to a couple of these factories and stuff, right? What's that like?

[00:12:09.02] - Yeo Han-koo

I think this is like really kind of futuristic. You know, many of them, you know, were kind of automated and state-of-the-art facility. And then, for example, recently I visited Texas, Austin, Texas, and they've been operating that, you know, the semiconductor manufacturing for decades. So a lot of those operations were localized already. And, you know, kind of also raising these local, you know, engineers, and they kind of developed some cooperation program with the University of Texas and this local, you know, community college, etc. So I think, you know, they are really contributing to this local economy.

[00:12:50.25] - Anjali V. Bhatt

That's really cool. Um, so like you said, um, South Korean investment in the U.S. is huge, um, and it's kind of all over the place. Does— does the U.S. has a trade deficit with Korea, and does that matter?

[00:13:08.19] - Yeo Han-koo

Yeah, I think, you know, trade deficit right now, it's a, you know, buzzword these days. But I, I think that all trade deficit is not created equal. What I mean by that is that you have to really look at, uh, what's the composition of those trade deficit. If you look at Korea's case, um, you know, as I said, a lot of this Korean investment are pivoting towards the United States. And then if that happened, this export is kind of a link. I mean, in other words, when you build these factories in the US, you have to bring machinery, you know, intermediate goods, etc. Yes, of course. Then why not do local sourcing? Yeah, they want to, but it takes time. It doesn't happen overnight. So for the, you know, the first few years, they have to, you know, continue to bring in those, you know, intermediate goods and input to this US manufacturing. And then they, you know, begin to localize and then develop this local ecosystem. So I think that last year, Korea's, you know, I mean, the US trade deficit with Korea kind of peaked at \$66 billion. But I think it's— you have to really look at what, you know, composed those trade deficit.

[00:14:28.03]

And I see this as more kind of temporary. Kind of phenomena.

[00:14:33.05] - Anjali V. Bhatt

What are the kind of things that the US exports to Korea?

[00:14:38.16] - Yeo Han-koo

You know, actually, Korea is the 6th largest trading partner to the United States, and Korea was the largest importer of US LNG for the last 7, 8 years. And then Koreans love US beef. I love US beef. And I mean, Korea is the largest export market for U.S. beef.

[00:15:00.26] - Anjali V. Bhatt

Really?

[00:15:01.05] - Yeo Han-koo

I mean, you know, bigger than this 1.4 billion, you know, the Chinese market. So, you know, in that sense, for many of these U.S. energy as well as these agricultural products, Korea is a pretty big market for U.S.

[00:15:16.18] - Anjali V. Bhatt

So LNG and beef. Good to know. So let's get to the tariffs. So back in the first Trump administration, at the first round of Section 232 steel and aluminum tariffs, you were at the Korean Embassy here.

[00:15:33.29] - Yeo Han-koo

Right.

[00:15:34.21] - Anjali V. Bhatt

And at the same time as those Section 232 tariffs were announced, you were also in the middle of renegotiating the Korea-US Trade Agreement.

[00:15:46.15] - Yeo Han-koo

Yes.

[00:15:46.23] - Anjali V. Bhatt

KORUS. What was that like?

[00:15:50.20] - Yeo Han-koo

Unfortunately, I was in the room. And let me tell you a kind of interesting story. I still vividly remember the first day of my arrival as a commercial attache. I was having dinner, and then all of a sudden breaking news came out that President Trump will terminate Korea-US FTA. That was my day one, right?

[00:16:12.22] - Anjali V. Bhatt

What a day one.

[00:16:14.22] - Yeo Han-koo

And then it was during the time when North Korea, I mean, Kim Jong-un, kept shooting this missile and testing nuclear weapons, etc. So it was really kind of a tense moment in terms of the security and economy of this alliance. And so I think, you know, the two countries managed to kind of begin this renegotiation of KORUS FTA. But 2 months into this negotiation, another breaking news came out that, you know, this Section 232 steel tariff will be imposed based on this national security concern. I thought it was on North Korea, not South Korea, your ally.

[00:16:55.15] - Anjali V. Bhatt

That's the national security issue.

[00:16:57.08] - Yeo Han-koo

Exactly. Yeah. But in the end, I think, you know, two countries managed to combine this Korea-US FTA as well as this Section 232, you know, steel, this quota negotiation. So Korea became like the first country to cut a deal with this Trump 1.0. Through this sort of shock and awe moments.

[00:17:20.07] - Anjali V. Bhatt

So the deal that you cut with the Trump administration that first time, explain how the quota system that you negotiated is different from just tariffs on Korean steel.

[00:17:33.14] - Yeo Han-koo

Yeah. During Trump 1.0, they used this quota system to exempt some of the countries from this 25% tariff. So at that time, Korea agreed to like this kind of 17% of the previous 3 years of average kind of export instead of this 25% tariff. And but what struck me for, you know, for the Trump 2.0, this steel tariff, you know, based on the 232, is that no exemption or no exclusion. You know, in principle. I doubt, you know, whether that could really hold considering this industry reality, because some of the specialized steel, I mean, you know, you cannot source in the US. So a lot of the downstream industry need to import some of the specialized steel. So, but I think it really shows the current approach on this tariff and then possible revenue kind of, you know, from this tariff. And, you know, it really seems to be a hard line. I mean, from my perspective.

[00:18:46.21] - Anjali V. Bhatt

So some of the steel that steel-using economies need and that other steel plants can't make here in the US, does Korea make some of that steel?

[00:19:00.07] - Yeo Han-koo

Yeah, Korea makes some of them. And so I think Japan and Australia and I think Canada maybe. So that's why I think these countries got exemption and also the first time around. And then on some of these specialized, you know, steel products got kind of, you know, exclusion from this quota system as well. So I think we have to see. I think, you know, you really have to, you know, consider the industry reality.

[00:19:31.26] - Anjali V. Bhatt

So you said, you know, the no exemptions and no exclusions is you know, is different from, from the first round. What else sort of is different about— well, a lot of things are different about the Trump administration's approach this time. But what are you seeing that that's really different that has struck you from the first time?

[00:19:53.19] - Yeo Han-koo

I think another really striking thing is when I look back on this, you know, the 4 years Trump 1.0, they used this tariff with limited purpose, you know, strictly economic, you know, purpose, you know, steel and also the washing machine, you know, etc. But now what we are, you know, kind of witnessing is, you know, the Trump 2.0 really aggressively using tariff for non-economic purpose. I mean, Panama, you know, Canal and the Greenland and immigrant, you know, the illegal immigration, etc. So, and also I think during this time around, they tend to look at tariff as a source for revenue, which is not really, you know, true. I mean, our Peterson, you know, colleague, you know, analyzed this and then, but so I think that is some of the kind of concerning aspect.

[00:20:52.11] - Anjali V. Bhatt

So now that tariffs are being used sort of as a threatening tool, a negotiation tool, how is that received in other countries? Like, how do your contacts in Korea sort of react to those threats/negotiation tactics?

[00:21:11.08] - Yeo Han-koo

Mm-hmm. Yeah, right now, I mean, realistically, United States has the largest, you know, kind of a market, the biggest market, and then the only super— I mean, the superpower. So I think that sort of pressure could work. But obviously it may kind of, you know, bring, you know, some resentment from those countries. So I think you need to be really careful, you know, not in the end. It's not just about trade. It's about alliance. It's about, you know, kind of American soft power, you know, around the world. And you don't want to really hurt, you know, those more fundamental, more important this asset of the United States.

[00:21:56.15] - Anjali V. Bhatt

Which is happening. So we've seen in the last few days how the Trump administration has been saying sort of a lot of different foreign policy towards Europe and NATO and the Russia-Ukraine war. Has anything changed towards Korea yet?

[00:22:19.10] - Yeo Han-koo

Now, I think, you know, Korea is in political turmoil and obviously you know, Korea is not really an imminent target, at least in the Trump 2.0. So we have to see. But actually, a lot of, you know, business leaders and, you know, Korean people are worried about, you know, whether they may, you know, go through that sort of shock and awe that they experienced in Trump 1.0. So, but I think that, you know, If you look at this medium, longer-term strategic value, there's a really kind of win-win value proposition between United States and Korea. You know, US is trying to rebuild manufacturing and supply chain and can't do it alone. And you need partner. But Korea can, you know, offer this, you know, this really complementary partnership in shipbuilding, you know, defense industry, biopharma, semiconductor, etc. So I think we really have to look at this medium strategy value that this alliance has and, you know, not really kill this momentum with this tariff.

[00:23:33.09] - Anjali V. Bhatt

You mentioned shipbuilding. I always think that's really interesting that Korea is really good at it. Can you talk a little bit just about that industry and maybe how this partnership or complementarity with the US could work?

[00:23:46.16] - Yeo Han-koo

Yeah, I think, you know, shipbuilding, you know, Korea is a kind of peninsula. So from 1,000 years ago, you have to build ship. And in our history, you know, this kind of first total ship by General Lee was kind of invented in Korea. I think it's much earlier than in the West. So Korea has this history, but also this, all these relevant industry. In order to build, you know, shipbuilding, you need, you know, kind of steel industry, you know, machinery and, you know, chemical and all this. So I think all these supply chain, related supply chain really help, you know, kind of build the, you know, shipbuilding industry in Korea. And so now I think, you know, Korean companies could consider investing in the United States, but also there needs to be some sort of deregulation. On the US part, because there's a lot of restrictions and, you know, requirement that you have to kind of purchase X, you know, 60, 70% of these inputs from the United States. And then also there's the Jones Act, which is very, very restrictive. So I think on the US side, there needs to be some sort of deregulation effort or modernization effort.

[00:25:08.00]

On those restrictions. And on the Korean side, they need to be more kind of, you know, proactive in kind of forging this, you know, supply chain cooperation.

[00:25:18.18] - Anjali V. Bhatt

So removing some of those, the procurement restrictions like Buy America and lowering those requirements, so that would benefit Korea. But, you know, a lot of Americans would say, oh, well, you know, we need stuff to be built in the US. Yeah. How would you sort of explain why it's fine that we're buying stuff from Korea?

[00:25:43.21] - Yeo Han-koo

Yeah, I think a few months ago, the Wall Street Journal reported very interesting— I mean, stark contrast between the shipbuilding capacity between United States and China. I think in one shipbuilding shipyard in China, they can build more you know, the ships than all these shipyards combined in the United States since 2014 or so. This shows how much, you know, the shipbuilding capacity fell behind in the United States. So I think there can be some sort of, you know, kind of middle ground where, you know, Korea or, you know, Japanese, these, you know, shipbuilders don't really kind of hurt this domestic, you know, kind of manufacturing base, but help, you know, with the, you know, investment and also export-import in the shipbuilding industry.

[00:26:41.11] - Anjali V. Bhatt

That makes sense to me. But that's why we're here at the Peterson Institute. Yeah. So we're almost at the end here. So let's, let's like wrap up. With what are you going to be looking for next? We— you said in the next few months, by, you know, April-ish, we're going to know what happened with the president in Korea. And also the Trump administration is exactly one month old today. What will you be looking for in the next sort of 3 to 6 months, both from Korea domestically as well as the US-Korea relationship?

[00:27:15.19] - Yeo Han-koo

I feel like it's one year, not one month.

[00:27:17.29] - Anjali V. Bhatt

It's been a long month.

[00:27:20.23] - Yeo Han-koo

I think that really, you know, two countries need to have this strategic, you know, geo-economic, you know, the view of this alliance. On the Korean side, I think first order of business is to put this domestic house in order, you know, and then look to more, you know, kind of medium, longer-term strategic value. That Korea can bring to the table. As I said, all these manufacturing sectors that the United States needs in this shipbuilding, semiconductor, etc. And also, I think on the Korean side, you know, Korea was a big beneficiary of this multilateral trading system. And then right now—

[00:28:07.07] - Anjali V. Bhatt

that's a whole other episode.

[00:28:08.29] - Yeo Han-koo

Yeah, the United States and China not really ready to lead again. So I think middle power country or third nations like Korea need to really step up to continue to, you know, advance this really, you know, important common goods or common challenges that we are facing. On the US side, as I said, they need to look at this Korea in this kind of bigger picture of the geopolitical dynamics happening in Northeast Asia and also not to really, you know, slow down or disrupt this momentum slowly building between Korea and the United States with this overdose of tariffs.

[00:28:59.13] - Anjali V. Bhatt

Yeah, well, we'll see how that works out. I think some of the tariff announcements are going to be coming in the next few weeks. So we'll see how that works. Well, we are at time. Han-koo, thank you so much for telling us about all of your experiences and everything you've learned. It's very relevant right now, given everything that's happening. And we're grateful that you joined us. Thank you to all of you for joining us for this edition of PIIE Insider Live. What did you think? What do you want to see next? Let us know at meetings@piie.com. And if you're not already, subscribe to the PIIE Insider newsletter piie.com/subscribe. So thanks again, and we'll hope you join us next time.